EAST LOTHIAN COUNCIL

STATEMENT OF ACCOUNTS

2010/11

CONTENTS

EXPLANATORY FOREWORD

Welcome to the Council's accounts for 2010/11.

This was another eventful year for the Council and I hope you find these to be an understandable guide to the most significant financial matters that have arisen within the Council and its wider group. In writing this foreword for you it is not my intention to comment on the policies of the Council, rather to explain the financial facts about what happened in 2010/11, which should help you form your own view.

The accounts that follow are prepared in accordance with relevant accounting standards and statutory requirements. These are applied in East Lothian by using the Accounting Policies explained in the Notes to the Accounts section.

You will find the layout of these accounts to be significantly different to those previously produced by the Council. The reason for this is that all local authorities are now required to produce annual accounts in line with International Financial Reporting Standards (IFRS). It has proved to be a major challenge to reconcile these requirements and the need to make the accounts understandable to members of the public – including qualified accountants. We have tried and we will let the reader judge whether we have been successful.

The main statements contained within these annual accounts are as follows:

- Comprehensive Income and Expenditure Statement – this outlines the financial performance of the Council during the 2010/11 financial year which ran from 1 April 2010 to 31 March 2011.

- Balance Sheet – this details the net worth of the Council at 31 March 2011 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement.

- Movement in Reserves Statement – this shows the movement in the year on the different reserves held by the Council.

- Cash Flow Statement – this provides another way of looking at the performance for the year removing the accrual of income and expenditure and showing how the cash in and out of the Council has affected the opening and closing cash position.

In addition to these main statements we have provided more information through the notes, supplementary statements and group statements.

The results for the year

The main figure that will probably draw the eye within the Comprehensive Income and Expenditure Statement is the 'bottom line' surplus figure of £64.039 million. It is important to understand how this figure has arisen under the new IFRS rules and how it is different from the 'statutory' position – which is the way we typically monitor the Council's financial performance.

Under IFRS rules, where appropriate, the Comprehensive Income and Expenditure Statement should now be credited with items arising from the revaluation of assets and any credits arising from the revaluation of assessed pension costs. In addition, it is also credited with grants and contributions received to pay for capital expenditure. During 2010/2011 the Council assets were revalued upwards by almost £7.7 million. However, more importantly, there was a significant reduction (£40.2 million) in the assessed costs relating to past service pensions. In large measure this is due to the decision to uprate future pensions by the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). Both these items, along with the crediting of capital income and further actuarial gains, generate the IFRS surplus of £64.039 million noted above.

When these IFRS specific transactions are stripped out from the accounts we arrive at a 'statutory' surplus of just over £3.7 million for the year. This was after the additional costs of dealing with a severe winter were paid.

This is significantly better than that expected when the 2010/11 budget was agreed by Council in February 2010. Indeed, at that point, the Council estimated that it would need to use almost £3.0 million of reserves to balance planned spending.

The factors that feed into this result are many and varied but include:

- Lower than expected spending within most service departments. During the year, in anticipation of difficult times ahead, all parts of the Council have implemented various measures designed to save costs. These have included deliberate non-filling of vacant posts and a review of current spending;
- The receipt of a reimbursement in relation to utility costs;
- Savings on debt interest and repayments totalling just over £2.0 million.

What we have also seen has been a continuation of a pattern noted in 2009/2010. In particular, budget holders have responded well in advance of the expected tightening of the public finances. When posts have become vacant they have often not been filled and elements of discretionary spending have been postponed. All these small decisions at a local level have had an effect on the overall 2010/11 financial results.

In addition to the statutory surplus of £3.7 million the Council was also able to add to reserves by crediting almost £2.9 million of capital receipts. At the end of the year we also took the opportunity to transfer capital receipts to the relevant service – either the Housing Revenue Account or General Services. After all this we now have almost £17.9 million as reserves specifically for General Services. A large proportion of this has already been set aside to help balance future budgets.

Trading Operations

Under Best Value legislation the Council has to identify and separately account for Significant Trading Operations (STOs). Unlike other Council services, each of the trading operations has the statutory financial target of breaking even over a cumulative three-year period. This is seen as an important indicator of whether Best Value has been achieved in these services. During 2009/10 the Council added two new STOs. These were for Care Homes and Domiciliary Care Services.

During 2010/11 all the established STOs i.e. Facility Services, Property Maintenance and Roads Services, met the statutory financial target.

Both the newly established STOs posted a profit in their second full year of operation.

Council Housing (Housing Revenue Account)

The main feature this year on the Housing Revenue Account (HRA) is that after the transfer of balances to General Services of £494,000 as planned, there was a small surplus of £73,000. At the end of the year we also transferred some of the balance on the Capital Fund into the Housing Revenue Account. Taken with the results for the financial year, the HRA balance now stands at £4.74 million. In addition, there are further capital receipts which will be credited to the Housing Revenue Account over the next few years. This effectively means that the HRA balance now stands at £10.1 million. This will be retained within the HRA and factored into future budgets.

Pensions

The pensions Accounting Standard (IAS19) has led to considerable comment about the financial position of public sector pension schemes, and in these accounts you will find extensive information that has been provided by an independent actuary on the Council's pension position.

The current position is that the Council's net pension liability has been assessed as being £79.9 million at 31 March 2011. This is a significant improvement on the position a year ago when the liability was assessed as £142.8 million. I have already commented above on the effect this has on the financial results. The change is mainly due to changes in assumptions about the future rise in pensions. I have commented in previous years about how volatile the results of the accounting standard are and the results of this year have once again illustrated this point.

Despite the large decrease in the reported position of the pension liability, the underlying management position is unchanged. In the long-term, the liability will continue to be measured and monitored. The cash contributions the Council makes to the Pension Fund is reviewed as part of an assessment made by an independent actuary every 3 years. The next independent valuation is at 31 March 2011 and will be available in time for the budget set in February 2012.

Change in Accounting Policies

As noted above, one of the major features of this set of financial statements is that they have now been prepared under the requirements of International Financial Reporting Standards (IFRS). The move from the previous standards to IFRS has meant that the Council has had to review the presentation of the financial figures but also review some of its accounting policies. More details on where this has had an effect are included throughout the accounts. The major impact has been on the accounting for;

- Grants and contributions from outside bodies;
- Leases – in particular those leases where the Council takes on, in effect, all the risks and rewards of ownership;
- Those liabilities relating to staff benefits, such as holidays and maternity leave;
- Property assets – particularly those which are 'Held for Sale' and those which were previously assessed as 'Investment Properties'.

Capital Investment Plans

In 2010/11, we invested £56.8 million in assets that support service delivery within East Lothian, which is an increase on the previous year (£51.8 million). Provided UK public expenditure constraints do not lead to central government control and rationing of capital expenditure, the Council plans to continue this level of investment in future years and may increase expenditure, especially on council housing.

We usually finance capital investment by using long-term borrowing, although investment in our 6 secondary schools has been delivered through a Public Private Partnership (PPP). During 2010/11 our borrowing increased to £253.65 million (2009/10: £206.9 million) to finance capital expenditure for the year.

Ultimately the cost of borrowing, whether through debt or to meet PPP unitary charge payments has to be met from future tax, grant or rent receipts which are the main sources of funding for the Council.

Receipts from these sources are shown in the Comprehensive Income & Expenditure Statement and the Supplementary Statement for the Housing Revenue Account. It is important to understand that when organisations lend to us they secure that debt on our future income stream not on our fixed assets. In this context any major change in the income stream may have a significant impact on our investment plans and vice versa. Council housing is a growing element of overall capital expenditure and debt and this is associated with the increase in rents in recent years, which is planned to continue. Most importantly, and unlike the UK government debt, the Council's debt is associated with investment in property assets that are intended to be held for the future provision of services. The Council does not borrow for any revenue expenditure or pure investment purpose.

The Year in Summary

2010/11 was another year in which the Council managed to successfully cope with immediate expenditure pressures. The Council added to its reserves and strengthened its financial position going forward, which is as it should be as East Lothian will need those funds to help it through the coming years. The difficulties expected have been communicated to both employees and the wider communities in East Lothian through our broad based approach to budget consultation, and there are some signs that the organisation can successfully adapt to dealing with what lies ahead. The greater challenge lies in similarly leading our communities.

David Spilsbury
Head of Finance
30 September 2011

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance, who is the designated Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that were reasonable and prudent.
- Complied with the Code of Practice.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Finance Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011, with the exception of the inclusion of the Police, Fire and Valuation Joint Boards as associates in the Group Accounts. In my opinion this does not comply with the Code of Practice but I have reluctantly included Joint Boards as associates to avoid a qualification of the financial statements by Audit Scotland.

David Spilsbury
Head of Finance
30 September 2011

The core financial statements comprise the following:

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statute and regulations. This may be different from accounting cost. The statutory position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold. It also includes reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed between usable reserves i.e. those that can be applied to fund expenditure or reduce local taxation and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services as defined by IFRS, more details of which are shown on the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase or Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement

2009/2010 (Restated) Gross Expenditure £000s	2009/2010 (Restated) Gross Income £000s	2009/2010 (Restated) Net Expenditure £000s		2010/2011 Gross Expenditure £000s	2010/2011 Gross Income £000s	2010/2011 Net Expenditure £000s
17,675	(14,041)	3,634	Central services	17,843	(13,530)	4,313
23,528	(4,143)	19,385	Cultural and related services	21,097	(1,568)	19,529
98,421	(10,736)	87,685	Education services	102,922	(11,156)	91,766
12,192	(965)	11,227	Environmental services	12,229	(1,073)	11,156
29,233	(24,292)	4,941	Housing services (non-HRA)	31,670	(28,042)	3,628
12,303	-	12,303	Joint Board requisitions	11,159	(340)	10,819
22,040	(19,065)	2,975	Local authority housing (HRA)	22,811	(19,433)	3,378
5,114	(1,731)	3,383	Planning & development services	4,586	(1,604)	2,982
18,650	(8,131)	10,519	Roads and transport services	21,838	(9,150)	12,688
71,480	(16,123)	55,357	Social Work services	71,596	(13,736)	57,860
1,605	(1)	1,604	Corporate and democratic core	2,006	-	2,006
-	-	-	Non-distributed costs	-	-	-
312,241	**(99,228)**	**213,013**	**Cost of Services**	**319,757**	**(99,632)**	**220,125**
		(2,606)	(Gains)/Losses on the disposal of non current assets			(1,141)
		14,538	Financing and investment income and expenditure (Note 6)			(25,275)
		(223,553)	Taxation and non specific grant income (Note 7)			(227,622)
		1,392	**(Surplus) or Deficit on Provision of Services**			(33,913)
		3,201	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(6,469)
		721	(Surplus) or deficit on revaluation of available for sale financial instruments			(1,180)
		83,670	Actuarial (gains)/losses on pension assets/liabilities			(22,477)
		87,592	**Other Comprehensive Income and Expenditure**			**(30,126)**
		88,984	**Total Comprehensive Income and Expenditure**			**(64,039)**

Balance Sheet as at 31 March 2011

Restated 01 April 2009 £000s	Restated 31 March 2010 £000s		Notes	31 March 2011 £000s
731,802	753,742	Property, Plant & Equipment	13	784,977
995	3	Intangible Assets	-	-
901	-	Assets Held for Sale	-	-
1,856	1,135	Long Term Investments	20	2,314
1,966	2,390	Long Term Debtors	21	4,623
737,520	**757,270**	**Long Term Assets**		**791,914**
7,162	-	Short Term Investments		47
-	519	Assets Held for Sale	15	986
427	432	Inventories		496
30,501	30,613	Short Term Debtors	22	31,593
(18,878)	(17,447)	Bad & Doubtful Debt Provision	22	(18,209)
-	455	Cash and Cash Equivalents		13,072
19,212	**14,572**	**Current Assets**		**27,985**
(5,786)	-	Bank Overdrafts	-	-
(6,504)	(3,730)	Short Term Borrowing	23	(14,937)
(22,105)	(22,072)	Short Term Creditors	24	(23,944)
(34,395)	**(25,802)**	**Current Liabilities**		**(38,881)**
(6,720)	(7,142)	Provisions	25	(7,381)
(172,622)	(203,222)	Long Term Borrowing	23	(238,718)
(115,442)	(197,110)	Other Long Term Liabilities	26	(131,664)
-	-	Capital Grants Receipts in Advance		(650)
(294,784)	**(407,474)**	**Long Term Liabilities**		**(378,413)**
427,553	**338,566**	**Net Assets**		**402,605**
(16,286)	(23,068)	Usable Reserves		(28,997)
(411,267)	(315,498)	Unusable Reserves	30	(373,608)
(427,553)	**(338,566)**	**Total Reserves**		**(402,605)**

The unaudited accounts were issued on 28 June 2011 and the audited accounts were authorised for issue on 28 September 2011.

David Spilsbury
Head of Finance

Cash Flow Statement

Restated 2009/2010 £000s		2010/11 £000s
1,392	Net (surplus) or deficit on the provision of services	(33,913)
(21,253)	Adjustments to net surplus or deficit on the provison of services for non-cash movements (Note 34)	7,685
-	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	3,018
(19,861)	Net Cash flow from Operating Activities (Note 35)	(23,210)
	Investing Activities	
51,916	Purchase of property, plant and equipment	56,169
(69)	Dividends from joint ventures and associates	(69)
(56)	Proceeds from short term investments	(543)
-	Other Receipts from investing activities	(84)
(4,781)	Proceeds from the sale of property, plant and equipment	(2,865)
47,010		52,608
	Financing Activities	
(36,174)	Cash received from short and long term borrowing	(55,328)
1,171	Capital element of finance leases and PFI Contracts	1,380
1,344	Repayments of short and long term borrowing	9,523
269	New loans made	2,410
(33,390)		(42,015)
(6,241)	Net increase or decrease in cash and cash equivalents	(12,617)
		-
5,786	Cash and cash equivalents at the beginning of the reporting period	(455)
(455)	Cash and cash equivalents at the end of the reporting period	(13,072)

MOVEMENT IN RESERVES STATEMENT

For the year ended 31 March 2010	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Total Authority Reserves (£000)
Balance at 31 March 2009	(9,620)	(2,621)	-	(1,104)	(2,941)	(16,286)	(411,267)	(427,553)
Movement in reserves during 2009/10								
(Surplus) or deficit on provision of services	(1,086)	2,478	-	-	-	1,392	-	1,392
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	87,592	87,592
Total Comprehensive Expenditure and Income	**(1,086)**	**2,478**	-	-	-	**1,392**	**87,592**	**88,984**
Adjustments between accounting basis & funding basis under regulations (Note 5)	852	(4,086)	(4,940)	-	-	(8,174)	8,177 -	-
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(234)**	**(1,608)**	**(4,940)**	-	-	**(6,782)**	**95,769**	**88,987**
Housing Revenue Account	(659)	659	-	-	-	-	-	-
Insurance Fund	(16)	-	-	16	-	-	-	-
Increase/Decrease (movement) in Year	**(909)**	**(949)**	**(4,940)**	**16**	-	**(6,782)**	**95,769**	**88,987**
Balance at 31 March 2010 carried forward	(10,529)	(3,570)	(4,940)	(1,088)	(2,941)	(23,068)	(315,498) -	(338,566)

For the year ended 31 March 2011	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	**Total Usable Reserves (£000)**	**Unusable Reserves (£000)**	**Total Authority Reserves (£000)**
Balance at 31 March 2010 carried forward	**(10,529)**	**(3,570)**	**(4,940)**	**(1,088)**	**(2,941)**	**(23,068)**	**(315,498)**	**(338,566)**
Movement in reserves during 2010/11								
(Surplus) or deficit on provision of services	(33,829)	(84)	-	-	-	**(33,913)**	-	(33,913)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	(30,126)	(30,126)
Total Comprehensive Expenditure and Income	**(33,829)**	**(84)**	**-**	**-**	**-**	**(33,913)**	**(30,126)**	**(64,039)**
Adjustments between accounting basis & funding basis under regulations (Note 5)	31,332	(483)	(2,865)	-	-	27,984	(27,984)	-
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(2,497)**	**(567)**	**(2,865)**	**-**	**-**	**(5,929)**	**(58,110)**	**(64,039)**
Housing Revenue Account	(494)	494	-	-		-		
Capital Fund	(4,247)	(1,100)	7,805		(2,458)	-		
Insurance Fund	(82)			82		-		
Increase/Decrease in Year	**(7,320)**	**(1,173)**	**4,940**	**82**	**(2,458)**	**(5,929)**	**(58,110)**	**(64,039)**
Balance at 31 March 2011 carried forward	**(17,849)**	**(4,743)**	**-**	**(1,006)**	**(5,399)**	**(28,997)**	**(373,608)**	**(402,605)**

NOTES TO THE ACCOUNTS

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts under the Local Authority Accounts (Scotland) Regulations 1985. These accounts must be prepared in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Accounting Code of Practice 2010/11 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government in Scotland Act (2003).

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenues from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefit or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.

- Interest receivable on investments and payable on borrowings is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non Current Assets

Services, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service

- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off

- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

vii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits e.g. cars. These are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA)

- The Local Government Pensions Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projected earnings of current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the gross redemption yield on the iBoxx Sterling Corporates Index, AA over 15 years.

The assets of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – bid price

- Unquoted securities – professional estimate

- Unitised securities – average of the bid and offer rates

- Property – market value.

The change in the net pensions liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of the years of service earned this year – allocated in the Comprehensive Income and

Expenditure Statement to the revenue accounts of services for which the employees worked

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement

- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement

- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions are charged to Reserves

- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund in the year. Within the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Teachers' Pension Scheme.

viii. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. This can lead to a difference in the amounts charged to the Comprehensive Income and Expenditure Statement compared to the net charge required against the General Fund Balance. This difference is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

x. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale financial assets – shares that have no quoted market price and do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

If assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to either the relevant service for receivables specific to that service or to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original interest rate.

Any gains and losses that arise on derecognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Unquoted equity investment assets are initially measured and carried at fair value. As the investment is unquoted, the annual revaluation is made based on the net book value of the company. There are no fixed or determinable payments, so any income (e.g. dividends) is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

If assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is a reasonable assurance that the Council will comply with the conditions attached to the payments and grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out in the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as the result of past events, (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains or losses are not permitted to have an impact on the General Fund Balance. The gains or losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000 the Capital Receipts Reserve.

xiii. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments at fair value, less any provision for losses.

xiv. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at a value based on latest purchase price. The difference between this practice and that recommended has no significant or material effect on the financial statements.

Long Term Contracts are accounted for using monthly, certified work valuations that are charged to the capital asset when the payment is made to the supplier. Due to the timing of these valuations, this leaves no significant work in progress to be shown on the Balance Sheet. The difference between this practice and that recommended has no significant or material effect on the financial statements.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property, plant and equipment. All other leases are classified as operating leases.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception or the present value of the minimum lease payments if lower. The asset recognised is matched by a liability for the obligation to pay the lessor. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant and equipment. Charges are made on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Authority as Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Cost of Services.

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one year are classified as Property, Plant and Equipment.

Recognition

Expenditure of over £6,000 on the acquisition, creation or enhancement of any Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential is charged as an expenses when it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets and community assets – depreciated historical cost.
- Council Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- Other Land & Buildings – fair value, determined as the amount that would be paid for the asset in existing use (Existing Use Value – EUV)
- Vehicles, Plant, Furniture and Equipment – depreciated historical cost.

Where non-property assets, that have short useful lives or low values (or both), depreciated historical cost basis is used a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from the fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gains

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment is recognised for the shortfall.

Where impairment is identified as part of this review or as a result of a valuation exercise, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gain.

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by systematic allocation of depreciable amount over their useful lives. An exception is made for assets without a determinable finite useful life (Land and certain Community Assets) and assets that are not yet available for use (Assets under Construction).

Deprecation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer

- Vehicles, plant and equipment – straight-line allocation over the life of the asset as advised by a suitably qualified officer

- Infrastructure – straight-line allocation over 25 years

- Community assets – straight-line allocation over the life of the asset as advised by a suitably qualified officer.

Where an item of Property, Plant and Equipment asset has major components, whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets held for Sale

When it becomes probable that the carrying value of an asset will be recovered principally through a sale transaction rather than its continuing use, it is reclassified as an asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Depreciation is not charged on Assets Held for Sale.

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Gains/Losses on the disposal of non current assets line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to Gains/Losses on the disposal of non current assets line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve. They can then be used for new capital investment or to meet the cost of debt repayments. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the non-current assets needed to provide the services passes to the Private Finance Initiative (PFI) contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the non-current assets will pass to the Council at the end of the contract for no additional charge, the Council carries the non-current assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value based on the cost to purchase the property, plant and equipment was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability to the PFI operator.
- Lifecycle replacement costs – a proportion of the amount payable to the PFI operator is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

ixx. Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible liability whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised on the Balance Sheet but disclosed in a note to the accounts

xx. Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non – current assets and retirement benefits and they do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

xxi. VAT

VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

2. Accounting Standards that have been issued but have not yet been adopted

With effect from the 2011/12 financial year the Council will begin accounting for tangible heritage assets in accordance with Financial Reporting Standard (FRS) 30 Heritage Assets.

A tangible heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

They are those assets which are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. In the case of East Lothian Council they will include civic regalia, museum collections and works of art. These items are currently included within the Community Assets figure within the Property, Plant and Equipment total.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The inclusion of various associates and subsidiaries within the Council's Group accounts. There are a range of possible opinions about whether the Council either controls or has significant influence over the various Joint Boards such as Lothian & Borders Police.

- The inclusion of the PFI contract for the refurbishment and facilities management of the six secondary schools as a finance lease within the Council's accounts. The accounting policies for PFI schemes have been applied to the arrangement and the asset and liability associated with this have been recognised on the Council's Balance Sheet.

- The classification of leases as either operating leases or finance leases.

4a. Prior Period Error

As part of the process of closing the 2010/2011 financial statements the Council became aware of an error in its published 2009/2010 statements.

A loan, totalling £1.5 million, which the Council expected to receive from an external organisation to help fund part of its capital programme was treated as a year-end grant outstanding and included as such in the 2009/2010 Balance Sheet. If unadjusted the overall effect of this treatment within the IFRS compliant accounts would be to overstate Debtors by £1.5 million and to similarly overstate the balance within the Capital Adjustment Account. There is no effect on the year-end General Fund balance as any credits relating to capital grants or contributions receivable are adjusted through the Movement in Reserves statement.

This error has been corrected in the 2009/2010 comparative figures disclosed in this set of accounts.

4b . Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming year are as follows;

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	The calculation of the net liability to pay pensions depends on a number of complex judgements including the discount rate chosen, the rate of salary increase and mortality rates. The actual figure has proved to be variable over time and this has been referred to in the Explanatory Foreword.	If actual results are different from assumptions there is the potential for a significant change – either increasing or decreasing the potential liability.
Property, Plant and Equipment	Assets are valued and depreciated over their useful lives in line with advice taken from external and internal valuers. The majority of the Council's property assets are due to be revalued during 2011/12 and there is some potential that there are significant changes in the carrying value.	If there is a significant reduction in value then the carrying amount of the asset on the Balance Sheet would fall.
Debtors	At 31 March 2011 the Council had balances of £7.985 million	If collection rates were to deteriorate then there

	relating to Council Tax debt and £1.794 million relating to Council House rent debt. The Council believes it has provided for the potential of doubtful debts. However, it is possible that future economic conditions could have a detrimental impact on collection rates.	would be a deterioration in cash inflows and the potential that income would not be realisable.

5. Adjustments between Accounting Basis and Funding Basis under Regulations.

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	**Movement in Usable Reserves (£000)**
2010/2011						
Charges for depreciation & amortisation of non-current assets	(16,205)	(8,246)	-	-	-	**(24,451)**
Impairment/revaluation losses (charged to I&E)	(5,409)	-	-	-	-	**(5,409)**
Capital grant and contributions applied	5,145	3,868	-	-	-	**9,013**
Differences re finance leases,stepped loans, premiums and discounts	295	-	-	-	-	**295**
Profit/loss on sale of non-current assets	(27)	1,169	(2,865)	-	-	**(1,723)**
Statutory Provision relating to PPP	1,378	-	-	-	-	**1,378**
Net retirement benefits per IAS19	25,030	1,194	-	-	-	**26,224**
Employee - Statutory Adjustments	250	-	-	-	-	**250**
Loans Fund principal repayments and statutory premia	6,589	1,100	-	-	-	**7,689**
Employer's contributions payable to the Lothian Pension Fund	13,718	432	-	-	-	**14,150**
Capital expenditure charged against the General Fund and HRA balances	568	-	-	-	-	**568**
Total Adjustments	31,332	(483)	(2,865)	-	-	**27,984**
2009/2010						
Charges for depreciation & amortisation of non-current assets	(16,848)	(6,933)	-	-	-	**(23,781)**
Impairment/revaluation losses (charged to I&E)	(1,806)	-	-	-	-	**(1,806)**
Capital grant and contributions applied	11,073	-	-	-	-	**11,073**
Differences re finance leases,stepped loans, premiums and discounts	(123)	-	-	-	-	**(123)**
Profit/loss on sale of non-current assets	502	2,104	(4,940)	-	-	**(2,334)**
Statutory Provision relating to PPP	1,293	-	-	-	-	**1,293**
Net retirement benefits per IAS19 (FRS17)	(12,449)	(237)	-	-	-	**(12,686)**
Employee - Statutory Adjustments	(387)	-	-	-	-	**(387)**
Loans Fund principal repayments and statutory premia	6,979	738	-	-	-	**7,717**
Other	(6)	1				**(5)**
Employer's contributions payable to the Lothian Pension Fund	12,624	241	-	-	-	**12,865**
Total Adjustments	852	(4,086)	(4,940)	-	-	(8,174)

6. Financing and Investment Income and Expenditure

2009/10 £000s		2010/11 £000s
11,853	Interest payable & similar charges	14,080
2,913	Pensions interest cost & expected return on pension assets	(39,100)
(228)	Interest receivable & similar income	(255)
14,538	Total	(25,275)

7. Taxation and Non Specific Grant Income

2009/10 £000s		2010/11 £000s
(45,091)	Council Tax	(46,045)
(39,748)	Non domestic rates	(38,455)
(127,641)	Non ringfenced government grants	(134,110)
(11,073)	Capital grants and contributions	(9,012)
(223,553)	Total	(227,622)

8. Trading Operations

The Council has 5 trading operations where the service manager is required to operate in a commercial environment and meet their unit's costs by generating income from other parts of the Council or other organisations. Each operation is obliged under statute to achieve break-even over a rolling three-year period. Following a review of trading operations in 2009 it was agreed to create 2 new trading operations. The Older People Care Homes and Domiciliary Care Services trading activities commenced in April 2009.

Facility Services

The Facility Services trading operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a surplus of £1.99 million.

	2010/11 £000s	2009/10 £000s	2008/09 £000s
Turnover	8,109	7,941	8,106
Surplus/(Deficit)	546	645	803
3-year Cumulative Surplus/(Deficit)	1,994		

Property Maintenance

Property Maintenance provides property maintenance services. The majority of work is undertaken on the Council's housing stock – including an increasing amount of work on housing improvements. This trading operation has now been operating for five years. The cumulative position over the last three years is now a surplus of £1.59 million.

	2010/11 £000s	2009/10 £000s	2008/09 £000s
Turnover	9,694	9,722	9,415
Surplus/(Deficit)	407	543	645
3-year Cumulative Surplus/(Deficit)	1,595		

Roads Services

Roads Services carries out a repair and maintenance service to enable the Council to fulfil its statutory obligations. The extent of its work includes roads network repair and maintenance. This includes routine and cyclical maintenance as well as some capital work. Over the three-year period the service has a cumulative surplus of £1.820 million and has met the statutory target.

	2010/11 £000s	2009/10 £000s	2008/09 £000s
Turnover	8,666	8,056	6,700
Surplus/(Deficit)	469	1,201	150
3-year Cumulative Surplus/(Deficit)	1,820		

Older People Care Home Services

Older People Care Home Services trading activities commenced in April 2009. Care Home provision is split between residential and nursing care and this activity provides 5 homes. During 2010/11 a surplus of £80,000 was made.

	2010/11 £000s	2009/10 £000s	2008/09 £000s
Turnover	5,480	5,096	-
Surplus/(Deficit)	80	(98)	-
3-year Cumulative Surplus/(Deficit)	(18)		

Domiciliary Care Services

This activity commenced in April 2009, and aims to support older people to live independently in their own homes as long as possible. During 2010/11 a surplus of £20,000 was made.

	2010/11 £000s	2009/10 £000s	2008/09 £000s
Turnover	3,670	3,479	-
Surplus/(Deficit)	20	(194)	-
3-year Cumulative Surplus/(Deficit)	(174)		

9. Agency income and expenditure

The Council provides an agency service to Scottish Water. Associated income and expenditure is not included within the Council Comprehensive Income and Expenditure Statement. In 2010/11 £14.8m (2009/10: £14.5m) was paid over to Scottish Water.

The Council shares services with other authorities (e.g. special education or social work facilities). The expenditure on these services is incurred so that the Council can perform its duties rather than the duties of another organisation.

10. Related parties

The Council is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions helps you assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in the Remuneration Report. During 2010/11, no works and services were commissioned from companies in which members had an interest.

Other Public Bodies

The Council is required to contribute to the cost of Fire, Police and Valuation joint boards. The net cost to the Council of these Joint Boards is separately identified in the Comprehensive Income and Expenditure Statement.

Entities Controlled or Significantly Influenced by the Authority

Entity	Payments in the year (£000s)	Nature of transactions	Position at year-end Debtor Balances (£000s)	Creditor Balances (£000s)
Enjoy East Lothian Limited	2,787	Provision of leisure services	75	(103)
East Lothian Investments	150	For economic development purposes	135	-
Brunton Theatre Trust	481	Provision of arts services	-	(171)
Common Goods	-	-	-	(811)
Musselburgh Joint Racing Committee	-	-	-	(868)
Trust Funds	-	-	-	(792)

11. Audit costs

Audit Scotland has been appointed as the Council's auditor by the Accounts Commission and requisitioned a fee of £0.27m (2009/10: £0.27m) from the Council to recover their costs.

The Council has no discretion over the services provided. Audit services include those leading to the production of the auditors' report on these accounts and a variety of studies and reviews undertaken at the discretion of Audit Scotland and the Accounts Commission.

12. Amounts reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice (BVACOP). However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Departments. The income and expenditure of the Council's Departments recorded in the budget reports for the year is as follows.

2010/2011	Chief Executive's Office	Community Services	Corporate Resources	Education & Children's Services	Environment	Corporate Activities	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income							
Fees, charges and other service income	(1,526)	(60,466)	(13,141)	(53,576)	(17,619)	(970)	(147,298)
Government grants and contributions	(160)	(14,114)	(772)	(2,948)	(1,086)	(199,629)	(218,709)
Interest and investment income	-	(32)	-	-	(69)	(154)	(255)
Income from council tax	-	-	-	-	-	(46,045)	(46,045)
(Gains) on the disposal of non-current assets	-	(1,169)	-	-	-	27	(1,142)
	(1,686)	(75,781)	(13,913)	(56,524)	(18,774)	(246,771)	(413,449)
Expenditure							
Employee Expenses	2,371	44,891	9,820	62,054	11,722	(37,906)	92,952
Other service expenses	1,521	73,703	3,033	23,398	23,349	11,841	136,845
Transfer Payments	-	833	-	777	-	22,313	23,923
Support service recharges	1,147	15,428	1,710	60,942	2,650	-	81,877
Depreciation, amortisation and impairment	18	14,370	713	9,306	5,432	20	29,859
Interest payments	-	23	-	-	-	14,057	14,080
	5,057	149,248	15,276	156,477	43,153	10,325	379,536
(Surplus) or Deficit on the Provision of Services	**3,371**	**73,467**	**1,363**	**99,953**	**24,379**	**(236,446)**	**(33,913)**

2009/2010	Chief Executive's Office	Community Services	Corporate Resources	Education & Children's Services	Environment	Corporate Activities	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income							
Fees, charges and other service income	(1,196)	(66,031)	(15,289)	(51,984)	(17,880)	(130)	(152,510)
Government grants and contributions	(622)	(8,941)	(764)	(2,637)	(800)	(198,114)	(211,878)
Interest and investment income	-	(111)	-	-	(69)	(48)	(228)
Income from council tax	-	-	-	-	-	(45,091)	(45,091)
(Gains) on the disposal of non-current assets	-	(2,104)	-	-	-	(501)	(2,605)
	(1,818)	(77,187)	(16,053)	(54,621)	(18,749)	(243,884)	(412,312)
Expenditure							
Employee Expenses	1,964	46,436	9,991	61,189	11,442	2,810	133,832
Other service expenses	1,656	77,978	3,039	23,197	19,374	12,786	138,030
Transfer Payments	-	778	-	1,021	-	20,305	22,104
Support service recharges	750	15,784	2,792	59,733	4,658	-	83,717
Depreciation, amortisation and impairment	14	11,527	1,888	3,955	5,044	1,741	24,169
Interest payments	-	1,611	-	-	-	10,241	11,852
	4,384	154,114	17,710	149,095	40,518	47,883	413,704
(Surplus) or Deficit on the Provision of Services	**2,566**	**76,927**	**1,657**	**94,474**	**21,769**	**(196,001)**	**1,392**

13. Property, Plant and Equipment

Movements in 2010/11

	Council Dwellings	Other land and buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Con-struction	Total Property, Plant and Equipment	PFI Assets Included in PPE
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation									
At 1 April 2010	261,879	454,484	23,667	52,059	18,172	80	19,030	**829,371**	55,885
Additions	11,740	12,956	3,415	5,382	1,446	2	21,871	**56,812**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	(1,248)	-	-	(321)	-	(2)	**(1,571)**	-
Derecognition - Disposals	(1,030)	(307)	(59)				(20)	**(1,416)**	-
Other Movements in cost or valuation	20,541	345					(21,869)	**(983)**	-
At 31 March 2011	**293,130**	**466,230**	**27,023**	**57,441**	**19,297**	**82**	**19,010**	**882,213**	**55,885**
Accumulated Depreciation and Impairment									
At 1 April 2010	(26,346)	(26,619)	(13,573)	(7,765)	(1,310)	(1)	(12)	**(75,626)**	(4,944)
Depreciation Charge	(8,246)	(8,875)	(3,810)	(3,033)	(468)	-	(19)	**(24,451)**	(1,510)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	3,191	-	-	115	-	-	**3,306**	
Derecognition - Disposals	129	38	44	-	-	-	-	**211**	-
Impairments	-	(676)	-	-	-	-	-	**(676)**	-
Other movements in depreciation or impairment	-	7	-	-	-	-	(7)	**-**	-
At 31 March 2011	(34,463)	(32,934)	(17,339)	(10,798)	(1,663)	(1)	(38)	(97,236)	(6,454)
Net Book Value									
At 31 March 2011	258,667	433,296	9,684	46,643	17,634	81	18,972	**784,977**	49,431
At 1 April 2010	235,533	427,865	10,094	44,294	16,862	79	19,018	**753,745**	50,941

14. Property, Plant and Equipment

Depreciation

Property, Plant and Equipment is depreciated over their estimated useful lives. The straight- line method has been used over the following periods:

Council Dwellings	10-50 years
Other Land and Buildings	5-60 years
Vehicles, Plant, Furniture & Equipment	5-15 years
Infrastructure	25 years
Community Assets	10-40 years

Assets under Construction are not depreciated.

Capital Commitments

As at 31 March 2011, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. This expenditure will be incurred in 2011/12 and in future budget years. Similar commitments in 2009/2010 were £26.5 million. The major gross commitments are:

	£000s
Brunton Hall Refurbishment	3,546
Dunbar New Community Facility	4,037
Dunbar Town House Museum	458
John Gray Centre	3,436
Ormiston Community Centre	836
Meadowmill Running Track/3G Pitches	4,000
New Dunbar Primary School	3,595
Housing - Links Avenue	64
Housing - Middleshot Road	84
Housing - Brunt Court	323
Housing - North High Street	490
Housing - Whitecraig Avenue	2,118
Housing - High Street, Prestonpans	809
Housing - Muirpark Wynd	5,126
Housing - Well Wynd Site, Tranent	586
	29,508

Revaluations

The Council carries out a rolling programme to ensure that Council Dwellings and Other Land and Building assets, which required to be measured at fair value, are revalued every five years.

Valuations are carried out by professional firms of chartered surveyors and by Council Estates staff. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

Council Dwellings were last revalued on 1 April 2009. A selection of the Land & Building assets have been revalued on 1 April 2010. The remaining Land & Building assets will be revalued on 1 April 2011.

The significant assumptions applied in estimating the fair values for building are that

No high alumina cement, asbestos, or other deleterious material was used in the construction of any property and that none has been subsequently incorporated.

The properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good titles can be shown.

The properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.

The inspection of those parts which have not been inspected would not cause an alteration in value.

The land and properties are not contaminated nor adversely affected by radon.

15. Assets held for sale

	2010/11 £000s	Current 2009/10 £000s
Balance outstanding at start of year	**519**	
Assets newly classified as held for sale		
Property, Plant and Equipment	986	-
Other assets	-	-
Additions	1	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Revaluations	-	-
Assets declassified as held for sale	-	-
Property, Plant and Equipment	-	-
Other assets	-	-
Assets sold	(520)	-
Transfers from non-current to current	-	519
Balance outstanding at end of the year	**986**	**519**

16. Assets held under lease

Council as Lessee

Operating leases

The Council uses certain items of plant and equipment financed under the terms of operating leases.

The amount paid under these arrangements in 2010/11 was £1.28m (2009/10: £1.11m).

The future minimum lease payments due under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2011	31 March 2010
	£000s	£000s
Not later than one year	1,099	977
Later than one year and not later than five years	861	1,389
Later than five years	-	-
	1,960	2,366

Finance leases

The Council has acquired a number of buildings, street lights and vehicles under finance leases.

The assets acquired under these leases are included within Property, Plant and Equipment at the following net amounts:

	31 March 2011	31 March 2010
		(Restated)
	£000s	£000s
Other Land and Buildings	4,020	3,582
Vehicles, Plant, Furniture and Equipment	454	743
	4,474	4,325

The Council is committed to making minimum lease payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the

Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011 £000s	31 March 2010 (Restated) £000s
Finance lease liabilities (Net Present Value of Minimum Lease Payments)		
Current	163	158
Non-Current	1,556	1,719
Finance costs payable in future years	6,690	6,927
Minimum Lease Payments	8,409	8,804

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £000s	31 March 2010 (Restated) £000s	31 March 2011 £000s	31 March 2010 (Restated) £000s
Not later than one year	395	395	163	158
Later than one year and not later than five years	1,326	1,452	445	555
Later than five years	6,688	6,957	1,111	1,164
	8,409	8,804	1,719	1,877

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/2011 £9,000 in contingent rents were payable by the Council.

Council as Lessor

Operating Leases

The Council leases out property under operating leases for the following purposes;

- For the provision of community services such as community centres and sports facilities;

- For economic development purposes to provide suitable affordable accommodation for business.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2011	31 March 2010
	£000s	£000s
Not later than one year	726	864
Later than one year and not later than five years	1,914	2,509
Later than five years	21,216	21,773
	23,856	25,146

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

17. Private Finance Initiatives and Similar Contracts

During 2002/03 the Council entered into a thirty year partnership with Innovate East Lothian Ltd for the provision of enhanced secondary school facilities and a new community centre and swimming pool.

The assets used to provide services are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 13.

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2011 are as follows:

	Payment for Services £000s	Re - imburse ment of Capital Expendit ure £000s	Interest £000s	Total £000s
Payable in 2011/12	3,218	1,116	3,097	7,431
Payable within 2-5 years	13,616	4,470	11,638	29,723
Payable within 6-10 years	17,524	6,860	12,769	37,154
Payable within 11-15 years	18,985	7,775	10,393	37,154
Payable within 16-20 years	17,750	11,949	7,454	37,154
Payable within 21-25 years	11,810	14,797	2,484	29,090
Total	82,903	46,967	47,834	177,704

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure is as follows:

	31 March 2011 £000s	31 March 2010 £000s
Balance at start of year	48,186	49,322
Payments	(1,219)	(1,136)
Capital expenditure incurred	-	-
Other Movements	-	-
Balance outstanding at year-end	46,967	48,186

18. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	31 March 2011 £000s	31 March 2010 £000s
Opening Capital Financing Requirement	**234,907**	**203,133**
Capital Investment		
Property , Plant and Equipment	56,813	51,800
Intangible Assets	-	7
Revenue Expenditure Funded from Capital	-	-
Sources of finance		
Capital receipts	-	-
Government grants	(8,658)	(12,573)
Other Contributions	(354)	-
Direct Revenue Contributions	(535)	-
Loans Fund	(7,689)	(7,460)
Closing Capital Financing Requirement	274,484	234,907
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	5,778	5,778
Increase in underlying need to borrow (unsupported by government financial assistance)	33,799	25,996

19. Impairment Losses

During 2010/2011 the Council recognised an impairment loss of £3.6 million in relation to a school building. With effect from the end of the current academic year the Council will be vacating the site and will be building a new school on a joint campus. The recoverable amount of the asset has been reduced to its value in use and the impairment loss has been charged to the Education line in the Comprehensive Income and Expenditure Statement.

20. Long Term Investments

Long Term Investments comprise the following:

	31 March 2011 £000s	31 March 2010 £000s	Details
Lothian Buses	1,509	371	East Lothian Council holds 200,000 ordinary shares representing 3.1% of the share capital. A dividend is received each year.
East Lothian Investments Limited	187	126	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
East Lothian Land	618	638	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
Total	2,314	1,135	

21. Long Term Debtors

In addition to short-term debt, the Council is owed money by a smaller number of people and organisations that will be repaid over a period greater than 1 year.

	31 March 2011 £000s	31 March 2010 £000s	Purpose
PPP - Prepaid lifecycle replacement costs	756	597	Prepaid lifecycle replacement costs
Private property owners - common repairs	588	610	Repairs to private property funded by secured ELC loans
Employees - car loans	157	323	Loans to employees repaid over 3-5 years
North Berwick Trust	407	407	Loan secured on land
East Lothian Investments	135	235	Loan to be repaid over 3 years
East Lothian Housing Association	2,561	198	Loan secured on land and houses
Other	19	20	
Total	4,623	2,390	

22. Short-term Debtors

Thousands of people and organisations owe the Council money that is due for payment within a year. In summary, the money owed to the Council on 31 March was:

	31 March 2011 £000s	31 March 2010 £000s
Taxpayers - Council Tax	7,985	7,916
Customers - Goods & Services	7,015	8,160
Taxpayers - Community Charge	7,761	7,768
UK Government - VAT & Grants	4,199	2,921
Scottish Government - Revenue Grants	1,120	718
Funders - Capital Projects	115	2,039
Tenants - Council House Rents	1,794	1,344
Other debtors	1,604	1,247
Total	31,593	32,113

Based on past experience and our assessment of collection risks, we have made the following provision against non-payment of these debts:

	31 March 2011 £000s	31 March 2010 £000s
Taxpayers - Council Tax	(6,598)	(6,651)
Customers - Goods & Services	(2,385)	(1,959)
Taxpayers - Community Charge	(7,761)	(7,768)
Tenants - Council House Rents	(1,465)	(1,069)
Total	(18,209)	(17,447)

23. Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2011 £000s	31 March 2010 £000s	31 March 2011 £000s	31 March 2010 £000s
Borrowing				
Financial liabilities at amortised cost	(238,718)	(203,222)	(14,937)	(3,730)
Investments				
Loans and receivables	4,623	2,390	47	-
Unquoted equity investment at fair value	2,314	1,135	-	-
Total investments	6,937	3,525	47	-

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2010/11 £000s	2009/10 £000s
Interest expense	14,080	11,853
Interest income	(186)	(159)
Dividends	(69)	(69)
Net (gain)/loss for the year	13,825	11,625

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2011 of between 1.89% and 5.31% for new loans from the PWLB and 0.56% for other loans

- No early repayment or impairment is recognised

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011		31 March 2010	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Financial Liabilities	(253,655)	(248,981)	(206,952)	(213,294)
Loans and Receivables	4,670	4,670	2,390	2,390

The fair value of financial liabilities is less than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans at the Balance Sheet date. These are long-term loans entered into at a time when interest rates were lower than current rates. The cost of early termination of the loans is prohibitive.

The fair value of financial assets is the same as the carrying amount either because the assets mature within 1 year or they are non-market assets associated with the specific circumstances of the Council.

Interest due on 31 March 2011 is added to the outstanding asset or liability. Loans with stepped interest rates are valued on a basis of average interest applied over the whole loan period.

Disclosure of nature and extent of risk arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk — the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk — the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk — the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk — the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government (Scotland) Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Regulations.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 23 February 2010 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2010/11 was set at £437.0m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £407.1m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25% based on the Council's net debt.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2010/11 was approved by the Council on 23 February 2010 and is available on the Council's website.
The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but the Council had no such deposits at 31 March 2011.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is always available when needed and that surplus holdings of cash are avoided as far as possible.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

The approved treasury indicator limits for the maturity structure of debt are the key parameters used to address this risk. The Council approved treasury strategy address the main risks and the central treasury team address the operational risks within the approved parameters.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	31 March 2011 £000s	31 March 2010 £000s
Loan Type		
Public Works Loan Board	(207,213)	(163,718)
Finance leases	(1,719)	(1,024)
Intra-group loans	(2,745)	(1,864)
Market loans	(41,978)	(40,346)
	(253,655)	(206,952)
Loan Maturity		
Repayable after more than 10 years	(148,715)	(137,042)
Repayable between 5 and 10 years	(56,671)	(30,513)
Repayable between 2 and 5 years	(25,920)	(25,241)
Repayable between 1 and 2 years	(7,412)	(10,426)
Long-term borrowing	(238,718)	(203,222)
Repayable within 1 year	(14,937)	(3,730)
	(253,655)	(206,952)

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk - The Council does not generally invest in equity shares or marketable bonds.

However, it does have shareholdings to the value of £2.314m in a number of joint ventures and in local industry. Whilst these holding are generally illiquid and are not held for financial reasons, in principle the Council is exposed to losses arising from movements in the price of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

On behalf of the Charitable Trusts and Common Good Funds, the Council does invest in equities and bonds via a professional investment management company. The investment managers seek to secure and grow the capital value of the funds whilst generating a return on those assets that the Trusts and Common Goods can use. The choice of investments is at the discretion of the investment managers guided by the underlying objective of securing the current and longer-term capital value of the funds.

Foreign exchange risk - With the exception of some investments held as part of Charitable Trusts and Common Good Funds, the Council has no financial assets or liabilities denominated in foreign currencies.

The investment managers for the Charitable Trusts and Common Good Funds are able to invest in equities and bonds denominated in foreign currency and this does introduce an element of foreign exchange risk. However, this is part of the overall risk management strategy, as exposure to UK investments only would increase the exposure to risks arising from changes within the UK economy. All investment decisions are guided by the underlying objective of securing the current and longer-term capital value of the funds.
The most significant investments held that are denominated in foreign currency are listed in note 5 to the Supplementary Financial Statements.

24. Short Term Creditors

At any financial year-end we owe money to thousands of people and organisations due for payment within a year. In summary, the money the Council owed on 31 March was:

	31 March 2011 £000s	31 March 2010 £000s
Suppliers and grant recipients	(13,181)	(12,508)
Income received in advance	(5,149)	(4,382)
UK Government - tax and national insurance deductions	(2,406)	(2,377)
Pension Funds - employee and employer contributions	(1,833)	(1,825)
Employees - work in March paid in April	(1,375)	(980)
Total	(23,944)	(22,072)

25. Provisions

Included within gross expenditure are the following provisions against known future costs.

	Housing Association Development Fund £000s	Accumulated Absences Fund £000s	Total £000s
Balance at 1 April 2010	(1,235)	(5,907)	(7,142)
Provisions made in 2010/2011	(489)	(5,657)	(6,146)
Amounts used in 2010/11	-	5,907	5,907
Balance at 31 March 2011	(1,724)	(5,657)	(7,381)

Prior to October 2008, any funds raised by reducing the second home or empty property Council Tax discount had been allocated to Registered Social Landlords (RSLs) for the development of affordable housing. Under Scottish Government direction, Local Authorities can now use this income themselves, disburse these funds to other organisations and individuals, as well as RSLs. Funds not yet allocated are held in this provision.

26. Long Term Liabilities

At 31 March the Council held some funds that are linked to agreements that will be implemented in the future.

	31 March 2011 £000s	31 March 2010 £000s	Details
Deferred Liabilities - Developers' Contributions	(3,846)	(4,186)	These amounts represent the payments received from developers and are linked to future capital spending. Funding is retained until project is completed
Deferred Liabilities - Rental Income in advance	(623)	(778)	Income to be released over the lease period
Deferred Liabilities - PPP income received in advance	(305)	(331)	Income to be released over the contract period
Finance Lease Liabilities	(46,967)	(49,039)	This amount represents the outstanding obligations the Council has to make payments under finance leases. More details are provided at Note 17
Net Pensions Liability	(79,923)	(142,774)	The underlying commitment that the Council has to pay retirement benefits. Recovered from the Council over future years. More details are provided at Note 28
Total Long term liabilities	(131,664)	(197,108)	

27. Contingent liabilities and contingent assets

The Council has been subjected to compensation claims under equal pay legislation. At 31 March 2011 most of these have been settled but a small number remain within the Employment Tribunal process. The value of these claims have yet to be finalised but are not expected to be material.

The decision to uplift public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The Government is defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the Government have not been assessed.

28. Defined Benefit Pension Schemes

Participation in Pensions schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the same time that employees are earning their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by the City of Edinburgh Council as the Lothian Pension Fund. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

Assets and liabilities in Relation to Post-Employment Benefits

A reconciliation of present value of the scheme liabilities can be presented as follows:

	31 March 2011 £000s	31 March 2010 £000s
Opening Balance at 1 April	(425,972)	(265,191)
Current Service Cost	(12,876)	(6,451)
Interest Costs	(21,956)	(18,314)
Contributions by Scheme participants	(3,806)	(3,678)
Actuarial gains / (losses)	27,606	(142,006)
Benefits paid	13,621	11,348
Past service costs	40,229	(1,680)
Closing Balance at 31 March	(383,154)	(425,972)

Reconciliation of fair value of the scheme assets:

	31 March 2011 £000s	31 March 2010 £000s
Opening Balance at 1 April	283,199	205,909
Expected rate of return	20,826	13,759
Actuarial gains / (losses)	(5,129)	58,337
Employer contributions	14,150	12,865
Contributions by Scheme participants	3,806	3,677
Benefits paid	(13,621)	(11,348)
Closing Balance at 31 March	303,231	283,199

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on the gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect the long-term real rate of return experienced in the respective markets.

The actual return on scheme assets for the period 1 April 2010 to 31 December 2010 was 6.6%. The estimated return for the full year is 5.5%.

Scheme History

	2006/07 £000s	2007/08 £000s	2008/09 £000s	2009/10 £000s	2010/11 £000s
Present value of liabilities	(309,850)	(277,654)	(265,191)	(425,972)	(383,154)
Fair value of employer assets	255,985	254,932	205,909	283,199	303,231
Surplus / (deficit)	(53,865)	(22,722)	(59,282)	(142,773)	(79,923)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £79.92 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy as the deficit will result in increased contributions in future years, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £12.04 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £0.07 million.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The main financial assumptions in the actuaries' calculations were:

	2010/11	2009/10
Long-term expected rate of return on assets in the scheme		
Equities	7.5%	7.8%
Bonds	4.9%	5.0%
Property	5.5%	5.8%
Cash	4.6%	4.8%
Mortality assumptions		
Longevity at 65 for current pensioners		
Male	20.8	20.8
Female	24.1	24.1
Longevity at 65 for future pensioners		
Male	22.3	22.3
Female	25.7	25.7
Rate of inflation	2.8%	3.8%
Rate of increase in salaries	5.1%	5.3%
Rate of increase in pensions	2.8%	3.8%
Rate for discounting scheme liabilities	5.5%	5.5%
Take-up of option to convert annual pension into retirement grant (Pre-April 2009 Service)	50.0%	50.0%
Take-up of option to convert annual pension into retirement grant (Post-April 2009 Service)	75.0%	75.0%

The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	31-Mar-11 %	31-Mar-10 %
Equities	79.0	79.0
Bonds	8.0	8.0
Property	10.0	9.0
Cash	3.0	4.0
	100.0	100.0

History of experience gains and losses

The actuarial loss identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011.

	2006/07	2007/08	2008/09	2009/10	2010/11
	%	%	%	%	%
Differences between the expected and actual return on assets	0.6%	-11.1%	-34.3%	20.6%	-1.7%
Experience gains and losses on liabilities	0.94%	-0.01%	3.02%	-0.47%	-3.2%

Defined contribution scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2010/11, the Council paid £5.34m (2009/10: £5.36m) to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% (2009/10: 14.9%) of pensionable pay. There were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2010/11, the Council paid £0.247m (2009/10: £0.40m) to Teachers' Pensions in respect of these retirement benefits.

Ex-Gratia Scheme

Under Regulation 45 of The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, the Council awarded an Ex-Gratia discretionary allowance to retiring employees in respect of service for which they were ineligible to join the pension fund prior to 1986.
In 2010/11, the Council paid £0.07m (2009/10: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £1.03m.

29. Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement.

30. Unusable Reserves

31 March 2010 £000s		31 March 2011 £000s
(13,537)	Revaluation Reserve	(18,314)
(135)	Available-for-sale Financial Instruments Reserve	(1,315)
142,774	Pensions Reserve	79,924
(455,890)	Capital Adjustment Account	(444,805)
5,383	Financial Instruments Adjustment Account	5,246
5,907	Employee Statutory Adjustment Account	5,657
(315,498)	**Total**	**(373,607)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are;

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2010 £000s		31 March 2011 £000s
(2,119)	**Balance at 1 April**	**(13,537)**
(11,913)	Upward revaluation of assets	(6,469)
-	Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services	-
(11,913)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(6,469)
495	Difference between fair value depreciation and historical cost depreciation	1,570
-	Accumulated gains on assets sold or scrapped	122
-	Amount written off to the Capital Adjustment Account	-
(13,537)	**Balance at 31 March**	**(18,314)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are;

- Revalued downwards or impaired and the gains are lost; or
- Disposed of and the gains are realised.

31 March 2010 £000s		31 March 2011 £000s
(856)	**Balance at 1 April**	**(135)**
(273)	Upward revaluation of investments	(1,200)
994	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	20
721		(1,180)
(135)	**Balance at 31 March**	**(1,315)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2010 £000s		31 March 2011 £000s
59,282	**Balance at 1 April**	**142,774**
83,670	Actuarial gains or losses on pensions assets and liabilities	(22,477)
12,687	Reversal of items relating to retirement benefits debited or credited to the Surplus or Defict on the Provision of Services in the Comprehensive Income and Expenditure Statement	(26,223)
(12,865)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,150)
142,774	**Balance at 31 March**	**79,924**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

31 March 2010 (Restated) £000s		31 March 2011 £000s
(478,575)	**Balance at 1 April**	**(455,890)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
23,781	Charges for depreciation and impairment of non-current assets	24,451 ✓
16,920	Revaluation losses on Property, Plant and Equipment	5,409 ✓
2,334	Assets written of on disposal or sale	1,723 ✓
43,035		31,583
(495)	Adjusting amounts written out of the Revaluation Reserve	(1,692)
42,540	Net amounts written out of the cost of non-current assets consumed in the year	29,891
	Capital Financing applied in the year	
(11,073)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(9,013) ✓
(8,782)	Statutory provison for the financing of capital investment charged against the General Fund and HRA balances	(9,225)
-	Capital expenditure charged against the General Fund and HRA balances	(568) ✓
(19,855)		**(18,806)**
(455,890)	**Balance at 31 March**	**(444,805)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the general Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expenses is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be charged to the General Fund over the next 16 years.

31 March 2010 £000s		31 March 2011 £000s
5,481	**Balance at 1 April**	**5,383**
(256)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(256)
158	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory provisions	119
(98)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory provisions	(137)
5,383	**Balance at 31 March**	**5,246**

Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlements carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfer from the Account.

31 March 2010 £000s		31 March 2011 £000s
5,520	**Balance at 1 April**	**5,907**
(5,520)	Settlement or cancellation of accrual made at the end of the preceding year	(5,907)
5,907	Amount accrued at the end of the current year	5,657
387	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(250)
5,907	**Balance at 31 March**	**5,657**

31. Transfers to/From Earmarked Reserves

This note sets out the amounts set aside from General Fund balances in earmarked reserves to provide financing for future expenditure and the amounts posted back from earmarked reserves to meet General Fund expenditure in the current year. All these funds are carried forward as part of the Council's General Services balance.

The Mid and East Lothian Drugs & Alcohol Project (MELDAP) is jointly funded by East Lothian Council and the NHS.

Under the Council's Devolved School Management (DSM) scheme, an element of funding unused by schools at 31 March is available to schools to spend the following financial year.

	Mid and East Lothian Drugs & Alchohol Project	Devolved School Management Balances
Balance at 1 April 2009	241	391
Transfers Out during 2009/2010	(154)	(223)
Transfers In during 2009/2010	-	
Balance at 31 March 2010	87	168
Transfers Out during 2010/2011	-	-
Transfers In during 2010/2011	57	97
Balance at 31 March 2011	**144**	**265**

32. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Finance on 28 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2011 as they provide information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date.

33. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11.

	2010/11 £000s	2009/10 £000s
Credited to Taxation & Non-Specific Grant Income		
General Capital Grant	(4,374)	(6,817)
Sporting Facilities	-	(1,193)
Contributions from developers	(392)	(1,113)
Mortgage to Rent scheme/Housing Grants	(3,868)	(703)
Other Grants & Contributions	(378)	(1,247)
Total	**(9,012)**	**(11,073)**
Credited to Services		
Housing Benefit Subsidy/Department for Work & Pensions	(21,896)	(19,653)
Resource Transfer Funds/NHS	(3,011)	(2,957)
Private Sector Housing Grant/Scottish Government	-	(1,191)
Criminal Justice Grant/Criminal Justice Authority	(947)	(997)
Housing Benefit Administration Subsidy/Department for Work & Pensions	(737)	(816)
Funding for Drugs & Alcohol Teams/NHS	(689)	(564)
Educational Maintenance Allowance Funding/Scottish Government	(354)	(453)
Home Insulation Grants	(364)	-
Fairer Scotland Funding/Scottish Government	-	(413)
Determined to Succeed/Scottish Government	(374)	(358)
Leader Programme	(489)	(306)
Dunbar Townscape Initiative/Heritage Lottery & Historic Scotland	-	(255)
Active Schools/Sports Scotland	(285)	(240)
Total	**(29,146)**	**(28,203)**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows.

	2010/11 £000s
Capital Grants & Contributions Receipts in Advance	
Sport Scotland	600
Other	50
Developer Contributions	3,846

34. Cash Flow Statement - Adjustments to net surplus or deficit on the provision of services for non-cash movements.

	2010/11 £000s	2009/10 £000s
Depreciation	(24,451)	(25,587)
Impairments and downward depreciations	(5,409)	-
Net gains on sale of fixed assets	(1,723)	2,606
Net charges made for retirement benefits in accordance with IAS 19	26,224	(12,686)
Employer's contributions payable to the Lothian Pension Fund	14,150	12,865
Statutory Provisions relating to debt	-	98
(Increase)/decrease in revenue long term-debtors & liabilities	146	(69)
Change in Provisions	(565)	-
Change in stock	66	1
Change in revenue debtors	1,083	1,949
Increase in revenue creditors	(1,836)	(430)
Total	**7,685**	**(21,253)**

35. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items;

	2010/11 £000s	2009/10 £000s
Cash Outflows		
Cash paid to and on behalf of employees	133,222	134,195
Other operating cash payments	139,169	92,851
Housing Benefit paid out	12,889	11,915
Requisitions paid	11,159	12,386
Cash Inflows		
Rents (after rebates)	(12,060)	(9,159)
Council Tax receipts	(45,923)	(44,932)
Non-domestic rate receipts	(39,046)	(39,821)
Revenue Support Grant	(134,110)	(127,641)
DSS grants for benefits	(24,029)	(20,868)
Other government grants	(25,037)	(4,956)
Cash received for goods and services	(39,444)	(23,832)
Total	**(23,210)**	**(19,861)**

36. Transition to International Financial Reporting Standards

As part of this set of accounts the Council has adopted International Financial Reporting Standards (IFRS). Where this is the case the Council is required to explain how the transition has affected its financial position.

The reconciliations below show how the Comprehensive Income and Expenditure Statement and the Balance Sheet have been affected by the introduction of IFRS. The starting points are the sets of accounts previously prepared.

The main changes relate to the following.

- Investment Property – Under International Accounting Standard (IAS) 16 the criteria for assessing Investment Property have been revised. As a result all the properties previously held as Investment Property have now been classified at Property, Plant and Equipment and depreciation has been charged on these from the date of restatement.

- Leases – The Council has reviewed all its major leases and has identified two which are now accounted as finance leases under IAS 17.

- Employee Benefits – Under IAS19 the cost of providing employee benefits is required to be recognised. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under previous accounting arrangements no such accrual was required.

- Government Grants – Under IAS 20 grants and contributions are recognised as income when they become receivable. Previously, grants were held in a Government Grants Deferred Account on the Balance Sheet and recognised as income over the life of the assets which they were used to fund. As a consequence the balance on the Government Grants Deferred Account at 31 March has been transferred to the Capital Adjustment Account.

Comprehensive Income and Expenditure Statement

	£000s
(Surplus)/Deficit for the 2009/10 year under previous accounting standards	**8,599**
Presentational Changes	
Inclusion of (Surplus) or deficit on revaluation of Property, Plant and Equipment	3,201
(Surplus) or deficit on revaluation of available for sale financial instruments	721
Actuarial (gains)/losses on pension assets/liabilities	83,670
Adoption of IFRS	
Inclusion of Capital Grants under IAS20	(11,073)
Charges for Employee Benefits under IAS19	387
Reversal of previously charged amortisation for Deferred Grants under IAS20	2,595
Depreciation for those assets required under IAS16	884
Total Comprehensive Income & Expenditure under IFRS	**88,984**

Reconciliation to Balance Sheet at 01 April 2009

	£000s
Net Book Value under previous standards at 01 April 2009	**385,588**
Transfer of balance on Government Grant Deferred Account under IAS 20	50,703
Inclusion of year-end accrual for Accumulated Absences under IAS 19	(5,520)
Inclusion of depreciation for assets now required under IAS 16	(3,114)
Net lease assets and liabilities now requiring to be recognised under IAS 17	(104)
Net Book Value under IFRS at 01 April 2009	**427,553**

Reconciliation to Balance Sheet at 31 March 2010

	£000s
Net Book Value under previous standards at 31 March 2010	**289,397**
Transfer of balance on Government Grant Deferred Account under IAS 20	60,681
Inclusion of year-end accrual for Accumulated Absences under IAS 19	(5,907)
Net lease assets and liabilities now requiring to be recognised under IAS 17	(107)
Inclusion of depreciation for assets now required under IAS 16	(3,998)
Prior Period Error	(1,500)
Net Book Value under IFRS at 31 March 2010	**338,566**

Housing Revenue Account

Income and Expenditure Account

2009/10 £000s		2010/11 £000s	£000s
	Income		
(17,817)	Dwelling rents	(18,513)	
(331)	Non-dwelling rents	(333)	
(408)	Service charges	(415)	
(388)	Other income	(13)	
(18,944)	**Total Income**		(19,274)
	Expenditure		
6,956	Repairs and maintenance	7,197	
6,269	Supervision and management	5,693	
7,391	Depreciation and impairment of fixed assets	8,246	
280	Increase in bad debt provision	321	
956	Other expenditure	1,054	
21,852	**Total Expenditure**		22,511
2,908	**Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		3,237
108	HRA services share of Corporate and Democratic Core		141
(38)	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		-
2,978	**Net Cost of HRA Services**		3,378
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(2,104)	(Gains)/Losses on sale of HRA fixed assets		(1,169)
1,612	Interest payable and similar charges		2,801
(111)	Interest and investment income		(32)
103	Pensions interest cost and expected return on pensions assets		(1,194)
-	Capital grants and contributions receivable		(3,868)
2,478	**Surplus for the year on HRA services**		(84)

Housing Revenue Account

Movement on the HRA Statement

2009/10 £000s		2010/11 £000s
(2,620)	Balance on the HRA at the end of the previous period	(3,570)
2,478	Surplus for the year on the HRA Income and Expenditure Account	(84)
(4,087)	Adjustments between accounting basis and funding basis under statute	(483)
(1,609)	(Increase) or decrease in the Housing Revenue Account Balance before transfers	(567)
659	HRA Balance transferred to General Services	494
-	Transfers into HRA from Capital Fund	(1,100)
(950)	(Increase) or decrease in year on the HRA	(1,173)
(3,570)	**Balance on the HRA at the end of the current period**	**(4,743)**

Note to the Movement of the HRA Statement

2009/10 £000s		2010/11 £000s
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year	
(6,933)	Depreciation and impairment of fixed assets	(8,246)
-	Capital grant and contributions applied	3,868
2,104	Gain or loss on sale of HRA fixed assets	1,169
(237)	Net charges made for retirement benefits in accordance with IAS 19	1,194
(5,066)		(2,015)
	Items not included in the HRA Account but included in the movement on HRA Balance for the year	
241	Employer's contributions payable to the Lothian Pension Fund	432
738	Loans fund principal	1,100
-	Capital expenditure funded by the HRA	-
979		1,532
(4,087)	**Net additional amount required by statute to be credited to the HRA Balance for the year**	(483)

Council Tax Income Account

The Council Tax Income Account shows the net income raised from the Council taxes levied under the Local Government Finance Act 1992. The tax level depends on the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers i.e. single occupants. A Council Tax benefit scheme is available to assist taxpayers on a low income.

2009/10 £000s		2010/11 £000s
(50,376)	**Gross council tax levied and contributions in lieu**	(50,865)
12	Council tax benefits (net of government grant)	(32)
	Less :	
12	Discounts for prompt payment	13
4,191	Other discounts and reductions	4,281
497	Provision for bad and doubtful debts	440
(45,664)		(46,163)
573	Adjustments to previous years' council tax	118
(45,091)	Transfer to General Fund	(46,045)

Non-domestic Rate Income Account

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2009/10 £000s		2010/11 £000s
	Rates contributable to/from National Pool	
(24,433)	Gross rates levied & contributions in lieu	(27,242)
6,045	Reliefs and other deductions	7,479
3	Payment of interest	-
1	Provision & bad debts written off	6
(18,384)		(19,757)
384	Adjustments relating to previous years	220
(18,000)	Net non-domestic rates income	(19,537)
(39,748)	Contribution from the National Non-domestic Rate Pool	(38,455)

Common Good Account

There are 4 separate Common Good Funds that were inherited from the former Burghs of Dunbar, Haddington, Musselburgh and North Berwick, and which are used to further the common good of the residents of these areas. Although the Common Good Funds are part of the Council and follow Council accounting policies, the finances of the Common Good must be kept separate from Council funds.

Comprehensive Income and Expenditure Statement

2009/10 £000s		2010/11 £000s
	Income	
(662)	Rents and other income	(582)
(662)		(582)
	Expenditure	
2	Employees	2
77	Premises-related expenditure	476
38	Supplies and services	50
567	Third party payments	45
66	Depreciation	89
750		662
88	**Cost of Services**	80
(330)	(Gains)/Losses on the disposal of non current assets	(308)
(16)	Financing and investment income and expenditure	(34)
(258)	**(Surplus) or Deficit on Provision of Services**	**(262)**
-	(Surplus) or deficit on revaluation of Property, Plant and Equipment	(796)
-	(Surplus) or deficit on revaluation of available for sale financial instruments	(116)
-	**Other Comprehensive Income and Expenditure**	(912)
(258)	**Total Comprehensive Income and Expenditure**	**(1,174)**

Balance Sheet

31 March 2010 £000s		31 March 2011 £000s
2,219	Property, Plant & Equipment	2,913
2,380	Long Term Investments	2,461
1,396	Long Term Debtors	1,396
5,995	**Long Term Assets**	6,770
15	Sundry debtors	33
433	Short-term loans	811
448	**Current Assets**	844
(2)	Short-term creditors	(1)
(2)	**Current Liabilities**	(1)
6,441	**Net Assets**	**7,613**
-	Financial Instruments Adjustment Reserve	(116)
(115)	Revaluation Reserve	(830)
(3,170)	Capital Adjustment Account	(3,121)
(3,156)	Common Good Fund	(3,546)
(6,441)	**Total Reserves**	**(7,613)**

Movement in Reserves Statement

For the year ended 31 March 2011	Common Good Balance (£000)	**Total Usable Reserves (£000)**	**Unusable Reserves (£000)**	Financial Instruments Adjustment (£000s)	Revaluation Reserve (£000)	Capital Adjustment Account (£000s)	**Total Common Good Reserves (£000)**
Balance at 31 March 2010 carried forward	(3,156)	(3,156)	(3,285)	-	(115)	(3,170)	(6,441)
Movement in reserves during 2010/11							
(Surplus) or deficit on provision of services	(262)	(262)	-	-	-	-	(262)
Other Comprehensive Expenditure and Income	-	-	(912)	(116)	(796)	-	(912)
Total Comprehensive Expenditure and Income	(262)	(262)	(912)	(116)	(796)	-	(1,174)
Adjustments between accounting basis & funding basis under regulations	(130)	(130)	130	-	81	49	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(392)	(392)	(782)	(116)	(715)	49	(1,174)
Transfers to/from Statutory Reserves	-	-	-	-	-	-	
Increase/Decrease in Year	(392)	(392)	(782)	(116)	(715)	49	(1,174)
Balance at 31 March 2011 carried forward	(3,548)	(3,548)	(4,067)	(116)	(830)	(3,121)	(7,615)

Trust Funds Account

The Council acts as majority or sole Trustee for 87 Charitable Trusts, Bequests and other funds, which are administered in accordance with the individual Bequest terms.

2009/10 £000s		2010/11 £000s
Income and Expenditure Account for the year		
	Income	
(79)	Investment Income	(72)
(30)	Surplus on Sale of Investments	(32)
(487)	Rents & Other Income	(47)
(596)		(151)
	Expenditure	
30	Grants & Events	45
596	Property Costs	39
-	Loss on Sale of Investments	9
33	Other Costs	6
659		99
63	**(Surplus)/Deficit for Year**	(52)
Balance Sheet as at 31 March		
	Long-term Assets	
550	Land & Buildings	548
2,270	Investments	2,385
115	Long-term Debtor	112
2,935		3,045
	Net Current Assets	
685	Short-term Loans	774
38	Less Current Assets/(Liabilities)	7
723		781
(298)	Long-term Liabilities	(295)
3,360	**Net Assets**	3,531
	Represented By:	
(462)	Capital Adjustment Account	(450)
(1,318)	Available for Sale Reserve	(1,418)
(1,580)	Accumulated Funds	(1,663)
(3,360)		(3,531)

1. Housing Revenue Account

Number and type of dwellings

	Stock at 1 April 2010	Sold in year	New Build	Bought in year	Other Adjust-ments	Stock at 31 March 2011
2 Apartment	1,623	(3)	51	1	2	1,674
3 Apartment	4,181	(20)	75	3	(1)	4,238
4 Apartment	2,024	(14)	44	5	-	2,059
5 Apartment	216	(1)	-	1	-	216
	8,044	(38)	170	10	1	8,187

Bad or Doubtful Debts

At the year-end, outstanding arrears totalled £1.94m (2009/10: £1.34m) or 9.3% (2009/10: 8.6%) of the rent collectable. A provision of £1.47m (2009/10: £1.07m) has been set aside in respect of uncollectable arrears.

2. Council Tax Income

The Council Tax base is calculated as follows;

	COUNCIL TAX BAND								
	A	B	C	D	E	F	G	H	Total
Properties	1,186	9,039	14,285	5,500	5,776	4,302	3,499	588	44,175
Disabled Relief Adjustments	25	63	(50)	(7)	-	(8)	(22)	(1)	-
Less :									
Exemptions	(76)	(305)	(308)	(141)	(243)	(54)	(45)	(12)	(1,184)
Discounts (net effect)	(203)	(1,262)	(1,407)	(511)	(397)	(240)	(173)	(30)	(4,223)
Effective Properties	932	7,535	12,520	4,841	5,136	4,000	3,259	545	38,768
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	621	5,861	11,129	4,841	6,277	5,778	5,432	1,090	41,029
Provision for non-payment (2%)									(821)
Council Tax Base									40,208
Charge for Each Band (£)	**745.08**	**869.26**	**993.44**	**1117.62**	**1365.98**	**1614.34**	**1862.70**	**2235.24**	

3. Non-domestic rate account

An analysis of the rateable values at the beginning of the financial year is detailed below.

	Number	Rateable Value £000
Shops, Offices and other Commercial Subjects	1,353	20,950
Industrial and Freight Transport	819	12,159
Miscellaneous (Schools etc)	1,082	30,688
	3,254	63,797

Rate Level

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for East Lothian. The non-domestic rate poundage is determined by the First Minister, and was 41.4p (2009/10: 48.5p) per pound for properties with rateable value of £35,000 or more and 40.7p (2009/10: 48.1p) for those with a rateable value of less than £35,000(2009/10:£29,000).

From 1 April 2010 levels of rates relief under the Small Business Bonus Scheme have been set at 100% for eligible properties with a combined Rateable Value (RV) of up to £10,000, 50% for those with a combined RV between £10,001 and £12,000 and 25% for those with a combined RV between £12,001 and £18,000. Additionally, businesses with multiple properties whose cumulative RV is £25,000 or less will be eligible for relief of 25% for each property with a rateable value less than £18,000.

4. Common Good Fund

The Common Good Funds once again operated at a surplus for the year, generating income from letting properties. Some of that income was used to maintain the assets and support events in their local communities.

Non-current Assets

The value of assets changed in the following way:

	Community Assets £000s
Net book value of assets at 31 March 2010	2,219
Movement in 2010/11	
Additions	438
Disposals	(112)
Revaluations	786
Depreciation	(34)
Impairments	(384)
Internal Transfers	-
Net book value of assets at 31 March 2011	**2,913**

Finance Leases

Details of Common Good Finance Leases

The proceeds from the finance lease are collected over the term of the lease, which creates a long-term debtor. The income receivable on this debt is:

	£000s
Income receivable in 2011/12	229
Income receivable between 2012/13 and 2016/17	913
Income receivable after 2017/18	6,247
	7,389

Fund Analysis

The four separate funds are valued at 31 March 2011 as:

	Dunbar £000	Hadding-ton £000	Mussel-burgh £000	North Berwick £000	Total £000
Balance brought forward on 1 April 2010	(12)	(410)	(2,592)	(142)	(3,156)
(Surplus)/Deficit for the year	(11)	(28)	(332)	(20)	(391)
Fund balance as at 31 March 2011	(23)	(438)	(2,924)	(162)	(3,546)
Net Assets	**1,547**	**504**	**5,097**	**465**	**7,613**

5. Charitable Trusts

In-year Financial Performance

During the year 2010/11, the Trust Funds operated at a surplus of £52,000 (2009/10: deficit of £63,000). The overall value increased from £3.360 million to £3.531 million by 31 March 2011.

Property Asset Valuation

For most Trust property assets, an independent valuer assesses the value of land and buildings every five years based on the open market value for existing use.

Market Investment Valuation

Investments are valued each year by the Trusts' investment managers based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2011 were:

2009/10 £000	Investment	2010/11 £000
102	UK Treasury Sep 07	102
92	Shell Ordinary Shares Eur 0.07	114
81	HSBC Holdings Ordinary Shares US $0.50	64
80	British Petroleum Ordinary Shares US $0.25	-
77	Investec Fund Managers Sterling Bond	-
75	JP Morgan IT Ordinary	82
63	UBS Global Assets Mgt US Equity	66
63	Vodaphone Group Ordinary Shares US $0.11	73
55	The European Investment Ordinary Shares	-
53	Threadneedle Inv American Select	-
1,529	Other stocks, shares and cash	1,884
2,270	Total	2,385

Group Comprehensive Income and Expenditure Statement

The Council has a range of interests in related companies. Details of these are provided in Note 10 to the Core Financial Statements.

2009/2010 (Restated) Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s		2010/2011 Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
17,675	(14,041)	3,634	Central services	17,843	(13,530)	4,313
25,631	(6,728)	18,903	Cultural and related services	21,914	(2,543)	19,371
99,750	(11,253)	88,497	Education services	103,012	(11,275)	91,737
12,192	(965)	11,227	Environmental services	12,229	(1,073)	11,156
29,233	(24,292)	4,941	Housing services (non-HRA)	31,670	(28,042)	3,628
12,303	-	12,303	Joint Board requisitions	11,159	(340)	10,819
22,040	(19,065)	2,975	Local authority housing (HRA)	22,811	(19,433)	3,378
5,114	(1,974)	3,140	Planning & development services	4,607	(1,605)	3,002
18,650	(8,131)	10,519	Roads and transport services	21,838	(9,150)	12,688
71,480	(16,123)	55,357	Social Work services	71,596	(13,736)	57,860
1,605	(1)	1,604	Corporate and democratic core	2,006	-	2,006
-	-	-	Non-distributed costs	-	-	-
315,673	**(102,573)**	**213,100**	**Cost of Services**	**320,685**	**(100,727)**	**219,958**
		(1,995)	(Gains)/Losses on the disposal of non current assets			(1,472)
		14,443	Financing and investment income and expenditure			(25,309)
		-	(Surplus) or deficit of discontinued operations			-
		(223,553)	Taxation and non specific grant income			(227,622)
		1,995	**(Surplus) or Deficit on Provision of Services**			(34,445)
		7,992	Share of the (surplus) or deficit on the provision of services by Associates			(12,171)
		-	Tax expenses of subsidiaries and associates			1
		9,987	**Group (Surplus)/Deficit**			(46,615)
		3,261	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(7,264)
		51	(Surplus) or deficit on revaluation of available for sale financial instruments			(1,414)
		83,670	Actuarial (gains)/losses on pension assets/liabilities			(22,477)
		55,040	Share of other comprehensive income and expenditure of associates.			(8,240)
		142,022	**Other Comprehensive Income and Expenditure**			(39,395)
		152,010	**Total Comprehensive Income and Expenditure**			(86,011)

Reconciliation of the Council Surplus/Deficit to the Group Surplus/Deficit

Restated 2009/2010 £000s		2010/2011 £000s
1,392	(Surplus)/deficit for the year on the Authority Comprehensive Income & Expenditure Account	(33,913)
	(Surplus) deficit for the year in the Group Income & Expenditure Account attributable to group entities	
7,992	Associates	(12,170)
603	Subsidiaries	(532)
9,987	**(Surplus)/Deficit for the year on the Group Income & Expenditure Account**	**(46,615)**

Group Balance Sheet as at 31 March 2011

Restated 31 March 2009 £000s	Restated 31 March 2010 £000s		31-Mar-11 £000s
737,859	756,511	Property Plant & Equipment	788,438
995	3	Intangible Assets	-
901	-	Assets Held for Sale	-
2,820	4,985	Long Term Investments	6,360
(106,257)	(169,289)	Investments in Associates	(148,721)
2,587	2,878	Long Term Debtors	6,131
638,905	595,088	**Long Term Assets**	652,208
7,162	(685)	Short Term Investments	47
-	519	Assets Held for Sale	986
427	432	Inventories	496
27,329	31,735	Short Term Debtors	32,133
(18,878)	(17,447)	Bad & Doubtful Debt Provision	(18,209)
412	1,146	Cash and Cash Equivalents	13,706
16,452	15,700	**Current Assets**	29,159
(5,786)	-	Bank Overdraft	-
(1,995)	(1,589)	Short Term Borrowing	(12,503)
(21,932)	(21,968)	Short Term Creditors	(24,529)
(29,713)	(23,557)	**Current Liabilities**	(37,032)
(6,720)	-	Long Term Creditors	-
(172,622)	(7,142)	Provisions	(7,381)
(115,442)	(203,520)	Long Term Borrowing	(238,718)
-	(197,110)	Other Long Term Liabilities	(131,959)
-	-	Capital Grants Receipts in Advance	(650)
(294,784)	(407,772)	**Long Term Liabilities**	(378,708)
330,860	**179,459**	**Net Assets**	**265,627**
-	-	Called Up Share Capital	-
(22,772)	(29,805)	Usable Reserves	(37,473)
(308,087)	(149,654)	Unusable Reserves	(228,153)
(330,860)	**(179,459)**	**Total Reserves**	**(265,627)**

Group Movement in Reserves Statement

For the year ended 31 March 2010	Total Usable Reserves (£000)	Unusable Reserves (£000)	Total Authority Reserves (£000)	Authority's Share of Reserves of Subsidiaries and Associates (£000)	Total Reserves (£000)
Balance at 31 March 2009	(16,286)	(411,267)	(427,553)	96,692	(330,861)
Movement in reserves during 2009/10					
(Surplus) or deficit on provision of services	1,392	-	1,392	7,985	**9,377**
Other Comprehensive Expenditure and Income	-	87,592	87,592	54,430	142,022
Total Comprehensive Expenditure and Income	**1,392**	**87,592**	**88,984**	**62,416**	**151,400**
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-
Net Increase/Decrease before Transfers					
Adjustments between accounting basis & funding basis under regulations	(8,174)	8,177	3	-	3
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(6,782)**	**95,769**	**88,987**	**62,416**	**151,403**
Transfers to/from Earmarked Reserves	-	-	-	-	
Balance at 31 March 2010 carried forward	(23,068)	(315,498)	(338,566)	**159,107**	(179,459)

For the year ended 31 March 2011	Total Usable Reserves (£000)	Unusable Reserves (£000)	Total Authority Reserves (£000)	Authority's Share of Reserves of Subsidiaries and Associates (£000)	Total Reserves (£000)
Balance at 31 March 2010	(23,068)	(315,498)	(338,566)	159,107	(179,459)
Movement in reserves during 2010/11					
(Surplus) or deficit on provision of services	(33,913)	-	(33,913)	(12,703)	**(46,616)**
Other Comprehensive Expenditure and Income	-	(30,126)	(30,126)	(9,269)	(39,395)
Total Comprehensive Expenditure and Income	(33,913)	(30,126)	(64,039)	(21,972)	(86,011)
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-
Net Increase/Decrease before Transfers					
Adjustments between accounting basis & funding basis under regulations	27,984	(27,984)	-	(157)	(157)
Net Increase/Decrease before Transfers to Other Statutory Reserves	(5,929)	(58,110)	(64,039)	(22,129)	(86,168)
Transfers to/from Earmarked Reserves	-	-	-	-	
Balance at 31 March 2011 carried forward	(28,997)	(373,608)	(402,605)	**136,978**	(265,627)

Group Cash Flow Statement

Restated 2009/2010 £000s		2010/11 £000s
1,385	Net (surplus) or deficit on the provision of services	(34,445)
(21,688)	Adjustments to net surplus or deficit on the provison of services for non-cash movements	8,319
470	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	2,988
(19,833)	Net Cash flow from Operating Activities	(23,138)
	Investing Activities	
51,916	Purchase of property, plant and equipment	56,169
(69)	Dividends from joint ventures and associates	(69)
(151)	Proceeds from short term investments	(615)
(45)	Other Receipts from investing activities	(116)
(5,111)	Proceeds from the sale of property, plant and equipment	(2,865)
46,540		52,504
	Financing Activities	
(36,157)	Cash received from short and long term borrowing	(55,328)
1,171	Capital element of finance leases and PFI Contracts	1,380
1,344	Repayments of short and long term borrowing	9,523
415	New loans made	2,499
(33,227)		(41,926)
(6,520)	Net increase or decrease in cash and cash equivalents	(12,560)
5,374	Cash and cash equivalents at the beginning of the reporting period	(1,146)
(1,146)	Cash and cash equivalents at the end of the reporting period	(13,706)

Notes to the Group Financial Statements

Combining Entities

Alongside its investments, East Lothian Council has an interest in a number of associate and subsidiary companies. For the purposes of consolidation and incorporation within the Group Accounts recognition of these interests has been made as follows.

Associates

The under noted entities along with the relative share have been treated as associate companies within the terms of the Code of Practice on Local Authority Accounting. These associate companies have been incorporated in line with the draft financial statements made available to East Lothian Council.

	2009/10	2010/11
East Lothian Investments	40.00%	40.00%
Enjoy East Lothian Limited	33.33%	33.33%
Brunton Theatre Trust	40.00%	40.00%
Lothian Valuation Joint Board	10.99%	10.99%
Lothian & Borders Police Board	8.25%	8.25%
Lothian & Borders Fire & Rescue Board	7.77%	7.77%

It is the opinion of the Chief Finance Officer that the Police, Fire and Valuation Joint Boards should not be included as associates in these accounts as such inclusion does not comply with the accounting Code of Practice. However, I have reluctantly included Joint Boards as associates to avoid a qualification of the financial statements by Audit Scotland. The inclusion of these organisations as associates has led to the qualification of the Chief Finance Officer's certification on page 6. The summarised financial information of the various associates for the financial year 2010/2011 has been presented below;

	(Surplus) or Deficit for the year (£000s)	Other Income & Expenditure Items (£000s)	Net Assets at the end of the year (£000s)
East Lothian Investments	(152)	-	468
Enjoy East Lothian Limited	(83)	(5,419)	5,122
Brunton Theatre Trust	69	-	567
Lothian Valuation Joint Board	(3,408)	(3,352)	(4,526)
Lothian & Borders Police Board	(109,522)	(36,625)	(1,542,798)
Lothian & Borders Fire & Rescue Board	(20,097)	(49,169)	(301,502)

Although disclosed as an associate company Enjoy East Lothian is limited in its ability to transfer financial benefits to East Lothian Council. Enjoy East Lothian Limited is a registered charity and the Memorandum of Association states that no portion of the income or assets shall be paid or transferred directly or indirectly by way of dividend, bonus or otherwise howsoever by way of profit to the members of the company.

Likewise, the Articles of Association relating to East Lothian Investments, restrict the payment or transference of income, either directly or indirectly, by way of dividend, bonus or otherwise, to members of the company.

Subsidiaries

The under noted entities are regarded as group subsidiary companies in line with the Code of Practice on Local Authority Accounting. For the purposes of the Group Accounts this means that the income, expenditure and annual surpluses or deficits of subsidiaries are combined within income, expenditure and annual surpluses or deficits relating to main council services.

No subsidiaries have been excluded.

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2011 show net assets of £618,000 (2010: £638,000), and a loss before taxation of £20,000 (31 March 2010: Profit of £243,000). The company has retained all profit. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

The annual accounts for the Common Good Funds and Charitable Trusts are included at pages 76 to 79.

The net value of the Charitable Trusts included within the Group Accounts is £3.53 million. The nature of the assets is explained in a note to the Supplementary Financial Statements on page 82. Although included as a subsidiary the Council does not expect a dividend as a result of its involvement.

In 1994 East Lothian District Council, along with the Lothians Racing Syndicate Limited, set up the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996.

A financial interest exists since the Council may be required to bear any financial losses of the Committee. As no consideration was given for this interest, there is no goodwill arising from this interest. No dividends will be received. This subsidiary has been incorporated in line with the financial statements made available to East Lothian Council.

The individual accounts relating to East Lothian Land and the Musselburgh Joint Racing Committee are available from the Head of Finance, East Lothian Council, John Muir House, Haddington, EH41 3HA.

Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies on the Group Balance Sheet is to decrease Net Assets and Reserves by £137 million. This is almost entirely due to the inclusion of police and fire brigade pension liabilities. It is the opinion of the Chief Finance Officer that these liabilities are not Council liabilities and that their inclusion does not present a true and fair view of the financial position of the Council.

The percentage share of the Joint Boards is subject to change each year. If the 2008/2009 shares were reflected in the accounts the liabilities would reduce by approximately £2m.

Annual Governance Statement

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government (Scotland) Act 2003 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In addition there is a duty on the Council to conduct, at least annually, a review of the effectiveness of the system of internal controls.

East Lothian Council carries out these duties in a number of ways including:

An Annual Review of Corporate Good Governance carried out by a task group which comprises the Head of Governance & Performance Management, Head of Finance, Chief Social Worker, Head of Law & Licensing and Internal Audit Manager. The group assess the extent to which the Council meets the principles and requirements of the local Code of Corporate Good Governance which was adopted by the Council in May 2010. The findings of the 2010/11 review were reported to the Council's Audit & Governance Committee in April 2011.

All Chief Officers are asked to sign a Declaration of Assurance which either confirms that internal financial controls are operating satisfactorily in their service or provides details of issues which they wish to highlight.

ELC's Internal Audit team carry out reviews of service areas throughout the year and report their findings to the Council's Audit and Governance Committee. The Internal Audit manager also gives an assurance statement on the effectiveness of the system of internal controls within the Council.

During 2010/11 the evidence showed that the governance and control arrangements in East Lothian Council generally operated well. There were however a number of areas where improvements are required and action has been agreed:

> The refresh of the Corporate Plan should include a review of the 2020 Vision developed by ELC in 2006 to ensure it is still relevant.
>
> The Community Planning process should ensure that all those involved are clear about their roles and responsibilities.
>
> A review of the annual performance information provided to the public by the Council should be undertaken.
>
> The Council's Scheme of Delegation should be reviewed to ensure it is up-to-date.
>
> The recommendations from the Review of the Impact of Multi-Member Wards and Officer Member Relations should be implemented.

There should be a review of the operation of the Council's Policy & Performance Review and Audit & Governance committees.

The corporate templates and guidance for report writing should be reviewed.

Awareness of the Council's Whistle Blowing policy should be increased.

Effective arrangements should be in place to encourage all sections of the community to engage with, contribute to and participate in the work of the Council. The Corporate Consultation Strategy currently being developed will address this.

A new approach to budget setting should be considered following proposals from the Head of Finance during 2010/11.

The Council approved new Financial Regulations in February 2011. These no longer include detailed financial procedures and instead refer to Statements of Current Working Method which is intended will supplement the Regulations. In many areas of the Council, the Statements of Current Working Method still need to be developed.

A review of the internal controls surrounding the administration of overtime payments identified some areas for improvement.

Internal control weaknesses were identified in respect to the management of Trade Waste and Abandoned Vehicles.

A review of Debtors identified a number of areas with scope for improvement.

An internal audit review raised concerns about some aspects of the arrangements within the Council for monitoring the PPP contract with Innovate East Lothian Ltd.

Angela Leitch	Paul McLennan	David Spilsbury
Chief Executive	Council Leader	Head of Finance
28 September 2011	29 September 2011	28 September 2011

REMUNERATION REPORT

Remuneration of Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183).

The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors.

The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2010-11 the salary for the Leader of East Lothian Council is £27,058. The Regulations also permit the Council to remunerate one Civic Head or Provost. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have.

The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the council for remuneration of all of its Senior Councillors (excluding the Leader and Civic Head/Provost) shall not exceed £164,374.

The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councilors who elect to become members.

In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Convenor or a Vice-Convenor of a Joint Board such as a Police Joint Board. The Regulations require the remuneration to be paid by the Council of which the convenor or vice-convenor (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the convenor or vice-convenor being a member of the Local Government Pension Scheme.

The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convenor or Vice-Convenor of a Joint Board.

The Council paid the following amounts to Senior Councillors in the year.

Councillor Name	Responsibility	Salary, Fees and allowances (£)	2010/2011 Taxable Expenses (£)	Total Remuneration 2010-11 (£)	Total Remuneration 2009-10 (£)
Jacqui Bell	Cabinet Member for Health & Social Care (from 8 June 2010)	19,540	1,454	20,994	-
David Berry	Leader of the Council (until 8 June 2010)	5,115	1,000	6,115	28,754
Ruth Currie	Cabinet Member for Community Wellbeing	20,294	1,453	21,747	21,879
Stuart Currie	Cabinet Member for Housing	20,294	1,900	22,194	22,119
Willie Innes	Leader of the Opposition	18,335	2,118	20,453	20,483
Roger Knox	Depute Provost	20,294	1,028	21,322	21,578
Peter MacKenzie	Cabinet Member for Education & Children's Services	20,294	1,371	21,665	22,537
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism (From 25 August 2009	20,294	2,338	22,632	19,538
Paul McLennan	Leader of the Council (from 8 June 2010)	25,803	-	25,803	20,294
Sheena Richardson	Provost	20,294	2,038	22,332	21,757
Barry Turner	Cabinet Member for Environment	20,294	1,457	21,751	21,520
		210,851	16,156	227,007	220,457

During the year Councillors Stuart Currie and Peter MacKenzie were vice-convenors of the Lothian & Borders Fire & Rescue Board and the Lothian & Borders Police Board respectively. The current arrangements require East Lothian Council to pay the remuneration appropriate to the Councillors work with the Joint Board. This remuneration is then recovered from the Police Board.

The remuneration figures supplied above are net of any amounts paid by the various Joint Boards. Details of these payments can be found in the Remuneration Reports of the Joint Boards.

At its meeting of 15 May 2007 the full Council agreed the scheme for the payment of salaries for all elected members including the Leader, Civic Head and Senior Councillors.

The Council paid the following salaries, allowances and expenses to all councillors (including Senior Councillors above) during the year.

Type of Remuneration	2010/11 (£)	2009/10 (£)
Salaries	418,787	417,095
Allowances	-	-
Expenses	30,194	32,420
Total	448,981	449,515

The annual return of Councillor's salaries and expenses for 2010-11 is available to view on the Council's website at www.eastlothian.gov.uk.

Senior Officer Remuneration

The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of East Lothian Council for the period 2008 to 2011.

An independent review of the remuneration packages of Senior Officials was carried out during the 2009/2010 financial year and was agreed at a full meeting of the Council on 25th August 2009.

Other benefits received by senior employees include either a Chief Officials' Travel Allowance or Essential Car User Allowance. The Chief Officials' Travel Allowance is currently being phased out and by April 2012 all senior officials will receive an annual Essential Car User Allowance of £822.

During 2010/2011 the Council paid the following amounts to senior employees.

Name	Post Title	Salary, fees and allowances (£)	2010/2011 Taxable Expenses (£)	Total Remuneration 2010-11 (£)	Total Remuneration 2009-10 (£)
Alan Blackie	Chief Executive	113,096	699	113,795	114,796
Monica Patterson	Director of Community Services (from 01/02/2010)	95,169	758	95,927	15,441
Sue Ross	Director of Community Services (to 20/11/2009)	-	-	-	61,704
Alex McCrorie	Director of Corporate Services	101,001	-	101,001	101,661
Don Ledingham	Director of Education & Childrens Services	95,169	711	95,880	92,138
Pete Collins	Director of Environment	101,001	-	101,001	101,661
Alan Ross	Head of Children's Services (to 17/01/2011)	71,722	-	71,722	83,606
Murray Leys	Head of Adult Social Care (from 19/07/2010)	58,505	487	58,992	-
David Spilsbury	Head of Finance	83,436	781	84,217	78,985
Jim Lamond	Head of Governance & Performance	85,813	-	85,813	88,102
		804,912	3,436	808,348	738,094

The Council's other employees receiving more than £50,000 remuneration for the year, excluding pension contributions, were paid the following amounts.

Band	2010/11	2009/10
£50,000 - £54,999	47	36
£55,000 - £59,999	20	18
£60,000 - £64,999	3	3
£65,000 - £69,999	3	3
£70,000 - £74,999	2	2
£75,000 - £79,999	2	4
£80,000 - £84,999	1	1
£85,000 - £89,999	4	3
Total	82	70

Subsidiary Bodies

The full post title and name of the most senior manager for each of the Council subsidiary companies is as follows;

Name of Subsidiary	Title	Name of Postholder
Musselburgh Joint Racing Committee	General Manager	Bill Farnsworth
East Lothian Land	Not Applicable	Not Applicable

No councillor receives remuneration from any of the Council's subsidiary bodies.

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends.

The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This was intended to strengthen the relationship between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2010-11 remain at the 2009-10 rates, (due to negative increase in the cost of living index for 2010-11) and are as follows:

Whole Time Pay	Contribution Rate (%) 2010/11	2009/10
Earnings up to £18,529	5.50	5.50
Earnings between £18,530-£22,264	5.60 - 5.80	5.60 - 5.80
Earnings between £22,265-£31,228	5.90 - 6.60	5.90 - 6.60
Earnings between £31,229-£40,645	6.70 - 7.30	6.70 - 7.30
Earnings above £40,646	7.40 - 10.80	7.40 - 10.80

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The estimated pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment. These are based on information available to the Council. The Lothian Pension Fund administers these pensions and holds information that is not available to the Council at the date of this statement. Should this information become available to the Council, updated figures will be published.

Pension Benefits – Senior Councillors

The estimated pension entitlements for Senior Councillors for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council during the year.

Councillor Name	Responsibility	In-Year Pension Contributions (£) 2010/2011	In-Year Pension Contributions (£) 2009/2010		Estimated Accrued Pension Benefits (£000) At 31 March 2011	Estimated Accrued Pension Benefits (£000) Difference from 31 March 2010
Paul McLennan	Leader of the Council (from 8 June 2010)	5,315	4,039	Pension	1	-
				Lump Sum	1	-
Sheena Richardson	Provost	4,181	4,039	Pension	1	-
				Lump Sum	2	1
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism	4,181	3,718	Pension	1	-
				Lump Sum	1	-
Barry Turner	Cabinet Member for Environment	-	-	Pension	1	-
				Lump Sum	1	-
Peter MacKenzie	Cabinet Member for Education & Children's Services	4,181	4,039	Pension	1	-
				Lump Sum	1	-
Roger Knox	Depute Provost	4,181	4,039	Pension	1	-
				Lump Sum	1	-
David Berry	Leader of the Council (until 8 June 2010)	3,758	5,385	Pension	2	1
				Lump Sum	2	-
Stuart Currie	Cabinet Member for Housing	-	-	Pension	-	-
				Lump Sum	-	-
Ruth Currie	Cabinet Member for Community Wellbeing	4,181	4,039	Pension	1	-
				Lump Sum	1	-
Jacqui Bell	Cabinet Member for Health & Social Care (from 8 June 2010)	4,025	3,231	Pension	1	-
				Lump Sum	1	-
Willie Innes	Leader of the Opposition	3,777	3,649	Pension	1	-
				Lump Sum	1	-
		37,780	36,178		23	2

Pension Benefits – Senior Employees

The estimated pension entitlements for Senior Employees for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council during the year.

Name	Post Title	In-Year Pension Contributions (£) 2010/2011	2009/2010		Estimated Accrued Pension Benefits (£000) At 31 March 2011	Difference from 31 March 2010
Alan Blackie	Chief Executive	22,408	21,647	Pension	55	2
				Lump Sum	154	-
Monica Patterson	Director of Community Services (from 01/02/2010)	19,435	3,053	Pension	34	2
				Lump Sum	94	3
Sue Ross	Director of Community Services (to 20/11/2009)	-	11,347	Pension	4	-
				Lump Sum	9	-
Alex McCrorie	Director of Corporate Services	19,435	17,929	Pension	49	4
				Lump Sum	137	7
Don Ledingham	Director of Education & Childrens Services	14,058	13,424	Pension	37	3
				Lump Sum	101	4
Pete Collins	Director of Environment	19,435	17,929	Pension	42	4
				Lump Sum	116	6
Alan Ross	Head of Children's Services (to 17/01/2011)	13,458	14,814	Pension	25	4
				Lump Sum	67	6
Murray Leys	Head of Adult Social Care (from 19/07/2010)	11,947	-	Pension	1	1
				Lump Sum	-	-
David Spilsbury	Head of Finance	16,957	14,426	Pension	18	4
				Lump Sum	45	5
Jim Lamond	Head of Governance & Performance	15,896	14,982	Pension	29	2
				Lump Sum	78	1
		153,029	129,551		1,095	58

Angela Leitch	Paul McLennan	David Spilsbury
Chief Executive	Council Leader	Head of Finance
28 September 2011	29 September 2011	28 September 2011

Independent Auditor's Report

Independent auditor's report to the members of East Lothian Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of East Lothian Council and its group for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets and Cash-Flow Statements, the council only Housing Revenue Account Income and Expenditure Account Statement, Movement on the Housing Revenue Account Statement, Council Tax Income Account, Non-Domestic Rate Income Account, Common Good Account Comprehensive Income and Expenditure Statement, Common Good Account Balance Sheet, Trust Fund Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 6, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and East Lothian Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and of East Lothian Council as at 31 March 2011 and of the income and expenditure of the group and East Lothian Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman, FCA
Assistant Director – Audit Services
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

Gillian Woolman

30 September 2011